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The determinants of stock prices in developed and emerging countries: A review of the literature

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Abstract
The current research paper reviews the determinants of stock prices in developed and emerging countries. These determinants are macro and micro economic variables. The results showed that the determinants of macro and micro economic variables are significantly influenced the stock prices in developed and emerging countries.

Keywords: Stock Prices; Developed Countries; Emerging Countries

Introduction

Several financial theories have debated the relationships between macroeconomic indicators and capital market prices. For example, Ross, Westerfield, and Jafe (2008) [42] argued that the capital assets pricing theory focuses on the relationships between capital market indices and a few macroeconomic indicators (i.e., risk free interest rate, market premium, and beta coefficient) to judge the responsiveness of stock indices to markets movements. Buyuksalvarci (2010) [9] debated that the application of the arbitrage pricing theory is more common than the capital assets pricing theory, because it addresses the relationships between stock market indices and several macroeconomic factors. On the other hand, Ehrhardt and Brigham (2009) [10] affirmed that the efficient market hypotheses theory indeed has several arguments regarding stock market prices and macroeconomic indicators.

On the other hand, numerous studies have examined the relationships between stock market indices and macroeconomic indicators (e.g., Adjasi, 2009; Agrawalla & Tuteja, 2008; Azeez & Yonezawa, 2006; Bjornland & Leimtemo, 2009; Filis, 2010; Hsing, 2011; Maysami & Koh, 2000; Oseni & Nwosa, 2011; Padhan, 2007; Pilinkus & Boguslauskas, 2009; Sohail & Hussain, 2011; Tsoukalas, 2003; Twerefou & Nimo, 2005) [1, 2, 4, 8, 12, 13, 22, 39, 40, 41, 43, 44, 45]. It must be noted that these studies were conducted in different countries and among differing income categories.

In the high income Organisation for Economic Co-operation and Development [OECD] countries, Azeez and Yonezawa (2006) [4] did their study in Japan, Bjornland and Leimtemo (2009) [8] in USA, Filis (2010) [12] in Greece, and Hsing (2011) [13] in the Czech Republic. The studies examined the relationships between macroeconomic variables and capital market indices. Research in the high income non OECD countries were performed by Maysami and Koh (2000) [22], Pilinkus and Boguslauskas (2009) [41], and Tsoukalas (2003) [44] in Singapore, Lithuania, and Cyprus, respectively. Ultimately, the relationships between macroeconomic variables and stock market indices had been investigated by several papers in the lower middle income countries (e.g., Adjasi, 2009; Agrawalla & Tuteja, 2008; Oseni & Nwosa, 2011; Padhan, 2007; Sohail & Hussain, 2011; Twerefou & Nimo, 2005) [1, 2, 39, 40, 43, 45].

Numerous studies have explored the relationships between macroeconomic variables and capital market indices in the upper middle income countries (e.g., Eita, 2012, Namibia; Karacaer & Kapusuzoglu, 2010, Turkey; Liu & Shrestha, 2008, China) [11, 18, 19]. However, the Malaysian case has received a notable attention by empirical research on the relationships between macroeconomic variables and stock market index (see, *inter alia*, Bekhet & Mugableh, 2012a; Bekhet & Mugableh, 2012b; Ibrahim, 1999; Ibrahim, 2003; Ibrahim & Aziz, 2003; Ibrahim & Yussof, 2001; Wongbangpo & Sharma, 2002) [5, 14, 15, 16, 17, 46]. These studies however employed different econometrics models and established the existence of equilibrium relationships between macroeconomic indicators and the Malaysian capital market index.

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